

City of Fayette
Independent Accountant's Examination Report
For the Period
July 1, 2012 through June 30, 2013

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City of Fayette

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bill Dohrmann	Mayor	Dec 2013
Doug McReynolds	Council Member	Dec 2013
Braulic Caballero	Council Member	Dec 2013
Patty Nefzger	Council Member	Dec 2013
Brian Frana	Council Member	Dec 2013
Todd Sorensen	Council Member	Dec 2013
Christie Dennis	City Administrator/Clerk	Indefinite
David James Hansen	City Attorney	Indefinite

James R. Ridihalgh, C.P.A.
Gene L. Fuelling, C.P.A.
Donald A. Snitker, C.P.A.
Jeremy P. Lockard, C.P.A.

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Independent Accountant's Examination Report

To the Honorable Mayor
and Members of City Council:

We have performed an examination of the City of Fayette pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Fayette for the period July 1, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6), and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's (CFC) recommended uniform chart of accounts and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2012 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.

11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended chart of accounts.
13. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended chart of accounts and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the operations of the City of Fayette, the objective of which is the expression of opinions on financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Fayette, additional matters might have come to our attention that would have been reported to you.

The report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fayette and other parties to whom the City of Fayette may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Fayette during the course of our examination. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

November 15, 2013

Detailed Recommendations

City of Fayette

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

(A13) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparation and distribution.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparation and reconciling.
- (7) Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

(B13) Separately Maintained Records – The Library and Ambulance each maintain a checkbook that is not recorded on the City's books. Chapter 384.20 of the Code of Iowa states in part "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." The transactions including revenues and expenses should be recorded on the City's books. The separate Ambulance account was closed out on May 31 of the fiscal year.

Recommendation – The City should include all separately maintained financial activity including revenues and expenditures on the City books.

(C13) Timesheet Approval – We noted employee timesheets were signed by the employees, but did not show evidence of approval by management or department heads. It was noted through inquiry that management does review timesheets of employees.

Recommendation – The City should document management's review of employee timesheets by initialing and dating timesheets after completing their review.

City of Fayette

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (D13) Budget – City disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public safety function. Chapter 384.20 of the Code of Iowa states, in part, “public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (E13) Certifying Debt – The City has certified the collection of property taxes on debt which is not debt within the meaning of general obligation debt. The City has collected property taxes on a 2004 transaction in which the City borrowed \$70,000 from itself, in other words borrowing between funds, to purchase an ambulance. In fiscal year 2012, the City certified \$155,000 for the purchase of a tanker for the Fire Department where the dollars were also borrowed internally.

Recommendation – The City should consult legal counsel to determine the disposition of this matter. Debt should be acquired from outside sources to satisfy the definition of General Obligation Debt.

- (F13) Journal Entries – The City Clerk has control over multiple duties within the City due to its relatively small size, including preparing and posting journal entries. It was noted that there is no independent approval of journal entries prepared and posted.

It was also noted that journal entries posted are not tagged in any way as journal entries in the accounting software making it difficult to ensure identification of all journal entries posted.

Recommendation – The City should implement a procedure to have an independent person review and authorize journal entries prepared by the City Clerk such as the City Treasurer. Authorization should be documented by the initials of the reviewer as well as the date of the review. Also, the City should begin applying tags in the accounting system that identify entries posted as journal entries.

- (G13) Chart of Accounts – The City does not utilize the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee (CFC) on September 25, 2002.

Recommendation – To provide better financial information and control, the CFC chart of accounts, or equivalent, should be followed.

- (H13) Expenditure Account Coding – We noted a sewer disbursement that was accounted for inaccurately as a water fund disbursement. During our inspection of invoices we noted the City does not code to accounts on the face of invoices.

City of Fayette

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

Recommendation – We recommend the City begin coding accounts on the face of invoices paid and reviewing the coding of disbursements for propriety to ensure expenditures are recorded to the proper funds and accounts.

- (I13) Tax Increment Financing Reports – We noted the City inaccurately reported debt balances on their fiscal year 2012 Annual Urban Renewal Report.

Recommendation – The City should consult the Department of Management, with whom the Annual Urban Renewal Report is filed to determine the disposition of this matter.

Staff

This examination was performed by:

Jeremy P. Lockard, CPA
Donald Snitker, CPA
James Remington, Staff Auditor